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AT DEADLINE

AT&T's Roessler retires

Ronald R. Roessler has retired from AT&T, where he was director for investment and risk management for the $43 billion pension fund.

Mr. Roessler accepted an enhanced retirement program that was part of a corporate downsizing. He had been with the Bell system since 1961.

Hearing delayed

The Pennsylvania House has delayed hearings until Feb. 15 and 16 on the anti-takeover bill for state corporations that passed the state Senate in December.

The bill, opposed by the state's two public pension funds, would place restrictions on investors of less than two years, limit the ability of raiders to vote their shares and allow corporate boards to consider interests other than those of shareholders.

Realty researcher moves

Real estate modern portfolio theorist Susan Hudson-Wilson has left John Hancock Properties to become vice president and director of market research at another Boston company, Aldrich, Eastman & Waltch. At Hancock, her position is being absorbed by Mark Lauritano, director of research, and a marketing person yet to be hired.

Global fund for mortgages

The Blackstone Freddie Mac Mortgage Securities Fund, the first mortgage fund sold to institutional investors globally, has drawn $531 million from Asian and European institutions.

The fund consists primarily of mortgage-related securities issued or guaranteed by the Federal Home Loan Mortgage Corp. and privately issued mortgage-related securities collateralized by Freddie Mac securities.

Kemper picks chief

Kemper Securities Holdings, the new holding company for Kemper Financial's securities business, named James R. Boris chairman, chief executive officer and president. Mr. Boris will continue as head of INVEST, a financial services firm in which Kemper owns an 85% stake.

San Diego hires

The $825 million San Diego City Employees' Retirement System has hired Putnam Cos. Inc. and Southeastern Asset Management Inc. as small-cap equity managers.

Each firm will receive $15 million.

LBO investors get tougher

Institutional investors are extracting tougher terms from the general partners of LBO and related limited partnership funds, says Robert Johnson, president of Beacon Hill Financial.

He said general partners will have to invest more of their own money in deals and share more of their fees with limited partners.

More enforcement muscle

Private sector will finance Bush budget hike for DOL

By Joel Chernoff

WASHINGTON — The Bush administration is asking Congress for a major increase in the Department of Labor's pension-law enforcement staff, and is promising a legislative package to improve policing of employee benefit plans.

But the burden of that package may fall heavily on the private sector, in terms of increased auditing costs and greater potential liability.

That proposal, along with one allowing a one-time transfer of surplus pension assets to retiree medical accounts, is contained in the Bush administration's budget request for fiscal 1991, which starts Oct. 1, 1990.

The transfer provisions are very limited and will not be attractive to many companies. Still, experts believe the administration's active support enhances the likelihood of some retiree health transfer provision passing this year.

The proposed budget would increase the Labor Department's investigative staff by about 50%.

The proposed increase is "clearly an effort on the part of the administration to show it's responsive," said Frank McArdle, manager of Hewitt Associates' Washington office.

The Bush administration would increase spending for the department's Pension and Welfare Benefits Administration in fiscal 1991 to $58.1 million from $43.1 million. The budget proposal would increase the number of investigators by 100 to about 300 positions. The PWBA's total staff would increase to 605 positions from 505.

An additional 33 positions would be given to the solicitor of labor's office for prosecuting pension and benefit plan cases. Another 12 positions in the solicitor's office would be shifted to the benefits area.

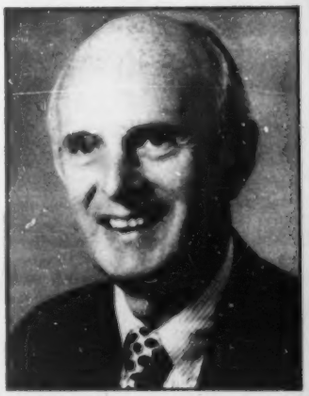
Since the Employee Retirement Income Security Act was enacted in 1974, private pension assets have increased to $1.7 trillion from $290 billion, but the number of investigators has remained static, according to the Labor Department.

The increase in staff, plus enhanced enforcement capabilities from development of a computerized data base, would enable the PWBA to perform an additional 1,000 investigations per year, up from about 1,600 now, explained David George Ball, assistant secretary of labor for pension and welfare benefits.

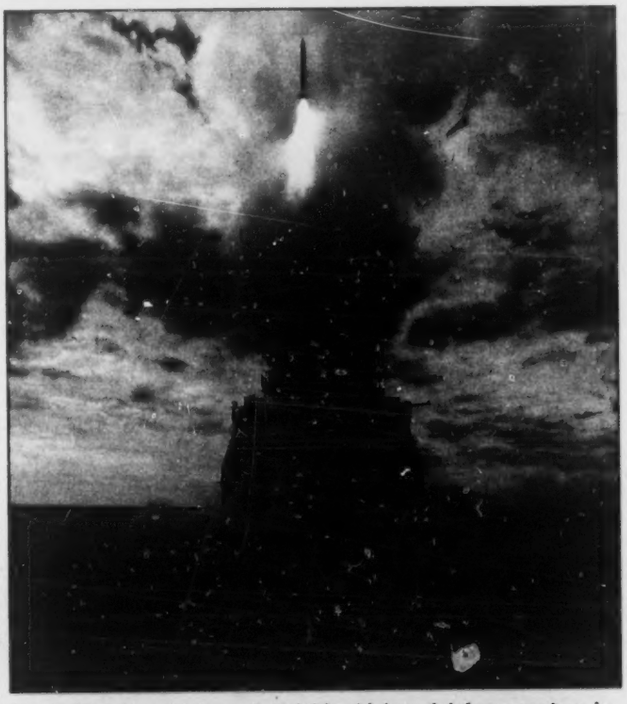
Mr. Ball said the increased resources will permit the department to pursue increased civil and criminal investigations.

Meanwhile, Raymond Maria, the Labor Department's acting inspector general, who has charged benefit plans are subject to widespread fraud and abuse, said the department's enforce-

See **Labor** *on page 33*



David Ball says more money means more investigations.



Martin Marietta, which produced this shipboard defense system, is one defense company whose diversification is attracting investors.

Contrarian outlook puts hopes in orbit

By Hillary Durgin

Wall Street's pessimism about the defense and aerospace industry's prospects for growth is creating a market opportunity for investing in companies branded with the defense stigma but viewed as large, well-managed and diversified.

"Wall Street is almost unanimously negative on these stocks — that's the making for a nice contrarian story," said Jeff Ubben, analyst at Fidelity Investments, Boston, and manager of the firm's Select Defense and Aerospace Portfolio.

While they're discarding stocks of prime military contractors such as **McDonnell Douglas Corp.** and **Lockheed Corp.**, institutional investors are stocking up on **E-Systems Inc.** and **Loral**

See **Defense** *on page 33*

Indexing, diversity give managers edge

By Trudy Ring

State Street Bank & Trust Co. and Bankers Trust Co. gained the most new investment management business from pension and other tax-exempt funds in 1989 as index fund and multiproduct managers dominated the industry.

GIC managers led among medium-size investment management firms in the Scorecard Survey, those with between $1 billion and $10 billion in assets; international investment specialists led in the $250 million to $1 billion category, while the biggest gainer among the smallest managers was a start-up firm formed by executives who left a bank subsidiary.

Among the largest firms — those with more than $10 billion under management — State Street Bank & Trust, Boston, led with a net dollar gain of $9.1 billion in discretionary U.S. tax-exempt institutional assets in 1989. Bankers Trust Co. — Investment Management Group, New York, followed with $7.8 billion.

Of State Street's new business, $2.5 billion was for index funds; of Bankers Trust's new business, $3.5 billion was indexed.

The top 10 also include another major indexer, Wells Fargo Investment Advisors, San Francisco, and several multistrategy managers — Fidelity Institutional Retirement Services Co. and Fidelity Management Trust Co., both of Boston; J.P. Morgan Investment Management Inc., New York; and Brinson Partners Inc., Chicago. International investments were a major factor for Wells Fargo, State Street, Fidelity Management Trust, Brinson Partners and Bankers Trust.

"I see the categories of passive investors are still doing well," said Ronald D. Peyton, president of Callan Associates Inc., San Francisco. "Large multiproduct line managers who have quality control are still doing well. . . . The growth of these firms really speaks to the quality of their operations as well as their marketing."

"I don't think it's at all unusual to see the passive and the multiproduct firms" among the top gainers, added Dave Eager, managing partner of Eager & Associates, Louisville, Ky., a consultant to money managers.

"The firms that have multiple products are going to be well-positioned," said Ron Jones, partner of Hewitt Associates, Lincolnshire, Ill.

Rounding out the top 10 are firms described as "niche players" — Pacific Investment Manage-

Scorecard results: Page 17

See **Survey** *on page 20*

NEWS DIGEST

First Executive Corp.'s junk bond losses could lead Congress to investigate annuity quality. Page 4.

President Bush's transaction fee proposal on futures contracts would hit individual investors hard and might reduce market liquidity. Page 6.

Sen. Daniel Patrick Moynihan's suggested cut in the Social Security tax should spark debate on a national retirement policy. Page 12.

A Merrill Lynch unit has asked that a suit filed against it by Harvard University be dismissed, but the school won't give up without a fight. Page 22.

Short selling strategies allow equity investors to exploit market inefficiencies while lowering risk. Page 27.

SPECIAL REPORT: 1989 SCORECARD

Investment firms with multiproduct and indexing capabilities, as well as discretionary guaranteed investment managers, were among the big winners in *P&I*'s annual tally of advisory firm new business growth. Pages 1, 17.

FINANCING

BellSouth Corp.'s Jan. 24 debt issue — the first to be sold for use in an ESOP — received a positive reaction from investors. Page 2.

The value of event risk protection is questioned as demand for corporate bonds exceeds supply. Page 3.

U.S. multinational companies must be ready to jump on Europe 1992 opportunities. Page 26.

INTERNATIONAL

International stock index funds again pace the growth among overseas investment firms. Page 17.

Japanese corporations may cool their domestic investing, freeing up more funds that could be put to work in the United States. Page 23.

Morgan Stanley has changed the composition of the Singapore-Malaysia Index within its EAFE benchmark after stock trading rules were altered. Page 29.

REAL ESTATE

The New York State Teachers pension fund is providing $100 million in financing for Oryx Energy Center, Dallas' first office development in three years. Page 8.

The desire for core real estate portfolios fueled the growth in business at some realty firms. Page 19.

Dean Witter Realty enters the hunt for tax-exempt institutional clients with a pitch for its value-creation strategy. Page 29.

DEPARTMENTS

Classified	32	Money movers	30
Commentary	15	Opinion	12
From the editor	12	Portfolio management	27
Frontlines	8	Statistically speaking	24

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Managers' survey under way

Pensions & Investments is preparing to mail questionnaires for its annual directory of investment advisers. If your firm has not participated in the past and would like to, or if your firm has moved in the past 12 months, please contact Christine Philip, directory coordinator, at (312) 649-5217. You also may send the information via facsimile machine, at (312) 649-5228.

BellSouth sells ESOP debt

Proceeds pre-fund other benefit plans

By Curtis Vosti

ATLANTA — The first debt offering sold for use in an ESOP — BellSouth Corp.'s $275 million issue — will be used to pre-fund company matches to defined contribution plans.

The Atlanta-based telecommunications giant went to the market Jan. 24 with the issue as the first part of a three-tranche $850 million public debt offering to fund a leveraged employee stock ownership plan. The proceeds will be used to meet — and increase — future company matches to its $2.3 billion defined contribution vehicles, including 401(k) and other savings plans. Because the transaction is being done through an ESOP, the company will receive tax advantages for dividends paid on the stock.

The sale makes BellSouth the first company to actually issue ESOP debt in the capital markets, though others — such as Upjohn Co., Kalamazoo, Mich., and Mobil Oil Corp., New York — are awaiting approval from the Securities and Exchange Commission before selling debt for ESOPs (*Pensions & Investments*, Dec. 25).

The medium-term non-callable notes — maturing July 3, 2003 — sold by BellSouth carry an interest rate of 9.125% and are rated AAA by Standard & Poor's Corp. and Aa1 by Moody's Investors Service Inc.

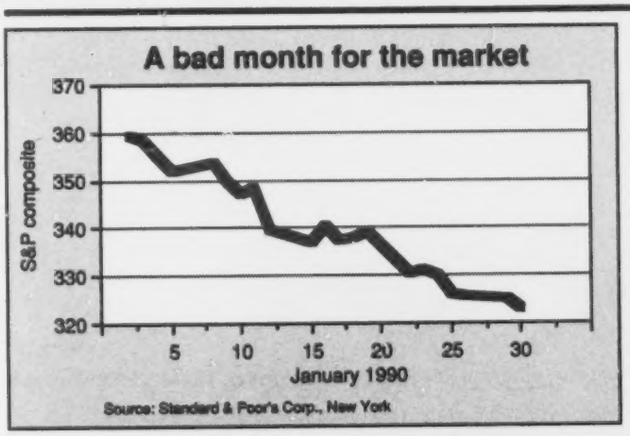
The $850 million in proceeds from the debt issues will be used to buy 16 million shares of stock. As the debt is paid down, the ESOP will allocate the shares to the savings plans.

Financing for the $550 million trust planned for the salaried employees was divided into two $275 million debt offerings.

"We felt that $550 million was too big a debt offering," said Alan Gasiorek, BellSouth assistant

See **BellSouth** *on page 34*

BellSouth, the first company to issue ESOP debt in the capital markets, will use the proceeds to buy 16 million shares of stock.



Investors are calm despite market drop

By Trudy Ring and Leonard J. Hollie

Despite a nearly monthlong beating in the equity market, most institutional investors say they're not ready to throw in the towel just yet.

As a matter of fact, the 10.2% drop in the Standard & Poor's 500 Stock Index and the 9.5% fall in the Dow Jones Industrial Average between Jan. 2 and Jan. 30 — apparently the result of selling by mutual fund shareholders and foreign investors — haven't prompted any of the pension executives interviewed to change their equity allocations.

Money managers, some of whom think the market is still overvalued, are neither raising cash nor going bottom-fishing for stock market bargains.

"We have suffered these declines in the market before. I don't see a permanent diminution in value in the stock market or anything to change our long-term strategy," said David White, vice president for capital management and trust investments at Unisys Corp., Blue Bell, Pa. "We are still invested at the same level that we were a year ago, which is 60% of our investments worldwide, or $2 billion, in equities." Unisys has more than $3 billion in defined benefit plan assets.

"As J.P. Morgan once said, the market will fluctuate," said William H.S. Preece, assistant treasurer of Motorola Corp., Schaumburg, Ill. Motorola's $575 million pension plan has 60% in equities, and its $1.1 billion profit-sharing plan has 50% in stocks.

"We've ridden out all the other bad days we've had in the recent past," said Mary Ann Devine, director-pension investments for Southwestern Bell Corp., St. Louis. Southwestern Bell's more than $7 billion defined benefit plan has 53% in equities.

At least one pension fund finds

See **Market** *on page 33*

Labor, firm battle over vote issue

By Marcia Parker

Organized labor is asking the Council of Institutional Investors and Pacific Enterprises' institutional shareholders to help defeat what the AFL-CIO calls the company's latest "frontal assault on shareholder rights."

Pacific Enterprises, Los Angeles, the parent of Southern California Gas Co., has called a special shareholders meeting Feb. 15 solely to seek approval of a proposal to eliminate cumulative voting in the election of directors in favor of majority voting.

In the latest instance of increasing union activism in corporate governance, the AFL-CIO and the Utility Workers Union of America allege Pacific Enterprises is pursuing the change partly to fend off any attempt by the Utility Workers to gain a seat on the gas utility and drug retailer's board.

Sam Weinstein, western regional director of the union that represents 5,000 Pacific Enterprises employees, last year tried and failed to land a seat on the board. He might try again this year, but, without cumulative voting, he would have virtually no chance of winning.

Elimination of cumulative voting also would discourage the accumulation of large minority positions as a prelude to a takeover. The company also has several other takeover repellents in place, including a poison pill and golden parachutes for its executives. Pacific Enterprise's share price has fallen to $45.75 from more than $60 prior to the October 1987

See **Voting** *on page 34*

GIC managers blossom

Defined contribution asset boom credited for increase

Fred Williams

1989 may be remembered as the ar discretionary management of aranteed investment vehicles ained the level of respect held management of more tradi- nal assets, such as equities and nds.

The 10 GIC managers with the st new business gained a phe- menal total of $12.34 billion ring 1989, according to *Pen- ns & Investments'* Scorecard rvey. That's about 50% more an the top 10 gainers in 1988.

Industry sources say the dra- atic growth in discretionary anagement of guaranteed in- stments comes almost exclusi- ly from internally managed de- ed contribution plans, usually 1(k) plans, whose executives find the growing size and number of contracts and overlapping maturity schedules too much for part-time management.

That, combined with increased concerns about credit quality of insurance carriers and the volatility in the equity markets, stimulate even more interest in GICs in participant-directed plans.

Nine of the top 10 gainers among GIC managers achieved growth of more than $250 million during 1989. The top four — Fidelity Institutional Retirement Services Co., Boston; PRIMCO Capital Management Inc., Louisville, Ky.; Morley Capital Management Inc., Lake Oswego, Ore.; and T. Rowe Price Guaranteed Asset Advisors, Glen Allen, Va. — gained at least $1 billion.

And GIC managers expect the growth to continue during 1990 and for the next two to three years before leveling off.

"GIC management has been solidified in 1989," said Ken Walker, president of T. Rowe Price Guaranteed Asset Advisers, which picked up $1.006 billion in new business from U.S. institutional tax-exempt funds. "The GIC market is currently in a state that the bond market was in during the early 1970s. It took a while for it to catch on but as they (GIC managers) emerged, people began hiring them instead of buying and holding contracts internally. I don't know of another asset class that is not managed."

Peter Bowles, president of Fiduciary Capital Management, Woodbury, Conn., which gained $350 million in new GIC business, said the growth is reflective of the move to defined contribution plans from defined benefit plans.

Also, he said plan sponsors "are starting to apply the same prudent investment disciplines as they have traditionally to bond portfolios. In the past, GICs were excluded from the normal portfolio structure. GICs are probably where bond management was 30 years ago when people used to put bonds in a safe deposit box and cashed them in when they ma-

See **GIC managers** *on page 18*

Most new GIC business (net)*

Firm	$ millions
Fidelity Institutional	3,092
PRIMCO Capital	2,055
Morley Capital	2,000
T. Rowe Price Guaranteed	1,006
Certus Financial	1,000
Bankers Trust	997
State Street Bank & Trust	859
IDS Trust	839
Fiduciary Capital Mgmt.	350
Bank One, Indianapolis	141

*Excludes insurers

Overseas investment goes stylish

By Curtis Vosti

International stock index funds again paced new international investments in 1989, but according to *Pensions & Investments'* Scorecard Survey, there was increasing emphasis on active and specialized products.

For the second year in a row, Wells Fargo Investment Advisors, San Francisco, and State Street Bank and Trust Co., Boston, were the top two in terms of net growth of international assets under management, with $2.4 billion for Wells Fargo and $1.85 billion for State Street. Combined, the two added more than the top 10 international managers did in 1988.

In third with $850 million was Capital Guardian Trust Co.

The overwhelming lead the two indexing giants have attests to the continued popularity of indexed international investments. Within the indexing, however, there is an indication the styles are broadening.

According to Patricia Dunn, president of Wells Fargo, about half of the new business was for tilted or customized index funds. "Investors found out there was a lot of flexibility," she said. "They didn't have to lock themselves in. Investors have appreciated that to index you don't have to index country weights."

The top 10 gainers, across all size categories, added $9.487 billion in net new international assets in 1989, more than double the $4.244 billion added by the top 10 in 1988. The top six gainers in 1989 were all from the largest asset category of managers: those with more than $10 billion in total U.S. tax-exempt assets under management. The next three, Nomura Capital Management Inc., Baring International Investment (U.S.) and Oechsle International Advisors, were in the category of those with between $1 billion and $10 billion in U.S. tax-exempt assets under management.

No. 10 overall was Hill Samuel Investment Advisers Inc., which netted the most international assets in 1989 among managers with between $250 million and $1 billion under management.

For the first time in Scorecard, *P&I* has divided the international managers into relative categories, comparing net international growth among firms in groupings of total assets under management. And it is in these categories that active international managers, with various tilts, came out on top.

Brian Fitzgibbon, senior vice president and director of Nomura, New York, said the firm's growth — $612 million net new business in 1989, placing it first among firms with $1 billion to $10 billion total tax-exempt assets under management — came mainly from value-oriented international equity portfolios and regionally focused investments. The firm also added an international fixed product.

Mr. Fitzgibbon said the firm's value approach — backed by a strong in-house research organization — contributed to its growth.

"We've done very well in Japan," he said of the country

See **Overseas style** *on page 19*

SCORECARD

Net dollar gain

Top managers over $10 billion

Firm	$ millions
State Street Bank & Trust	9,107
Bankers Trust	7,804
Fidelity Institutional	5,615
J.P. Morgan	4,253
Pacific Investment	3,683
Wells Fargo Investment	3,034
Delaware Investment	1,706
Lincoln Capital	1,500
Brinson Partners	1,443
Fidelity Mgmt. Trust	1,375

Top managers $1 billion to $10 billion

Firm	$ millions
PRIMCO Capital	2,055
Morley Capital	2,000
Western Asset Mgmt.	1,892
Goldman, Sachs Asset Mgmt.	1,407
Northern Investment	1,320
BEA Associates	1,251
Yarmouth Group	1,195
CNA Insurance	1,126
Eagle Asset Mgmt.	1,076
GAMCO Investors	1,058

Top managers $250 million to $1 billion

Firm	$ millions
Hill Samuel Investment Advisers	450
Boston International Advisors	454
JCW Investments	450
Morgan Stanley-Chicago Group	440
Consistent Asset Mgmt.	430
Atlantic Portfolio Analytics	417
Ryan Labs	412
Matuschka & Co.	401
Brandywine Asset Mgmt.	397
Advanced Investment Mgmt.	303

Top managers under $250 million

Firm	$ millions
Spare, Tengler, Kaplan & Bischel	206
Mid-Atlantic Realty Advisors	182
Cadence Capital	147
AMB Institutional Realty	136
Lincoln Asset Mgmt.	130
Wardley Investment Services	100
Carl Domino Associates	97
Paradigm Partners	96
Rich Investment	85
Seaboard Investment	80

The figures in this and all other Scorecard charts refer to U.S. institutional, tax-exempt assets.

Most new equity business (net)

Top managers over $10 billion

Firm	$ millions
State Street Bank & Trust	6,062
Bankers Trust	2,142
Fidelity Institutional	1,386
Delaware Investment Advisers	1,213
Wells Fargo Investment	1,020
INVESCO Capital	525
Pacific Investment	323
Oppenheimer Capital	313
J.P. Morgan	310
Fidelity Mgmt. Trust	303

Top managers $1 billion to $10 billion

Firm	$ millions
GAMCO Investors	1,058
Eagle Asset Mgmt.	1,056
SASCO Capital	349
Morgan Grenfell Capital	329
Trinity Investment	311
Barrow, Hanley, Mewhinney & Strauss	279
Nicholas-Applegate Capital	277
Newbold's Asset Mgmt.	246
Hotchkis and Wiley	220
Goldman, Sachs Asset Mgmt.	194

Top managers $250 million to $1 billion

Firm	$ millions
Brandywine Asset Mgmt.	307
Morgan Stanley-Chicago Group	318
Advanced Investment Mgmt.	300
NFJ Investment Group	270
Chicago Corp.	229
Lynch & Mayer	210
Investment Research	190
WEDGE Capital	166
Schaenen Wood & Associates	160
Fisher Investments	159

Top managers under $250 million

Firm	$ millions
Spare, Tengler, Kaplan & Bischel	185
Cadence Capital	147
Carl Domino Associates	85
Rich Investment	85
Snyder Capital	85
Cedar Hill Associates	80
Philadelphia Investment	40
Davis Hamilton Associates	33
RXR Capital	31
Fox Asset Mgmt.	31

Most new fixed-income business (net)

Top managers over $10 billion

Firm	$ millions
Bankers Trust	4,041
Pacific Investment	3,360
J.P. Morgan	2,365
Lincoln Capital	1,328
Metropolitan Life	1,283
RCM Capital	905
Delaware Investment	482
Boston Co.	403
Principal Financial Group	244
Fidelity Mgmt. Trust	194

Top managers $1 billion to $10 billion

Firm	$ millions
Western Asset Mgmt.	1,892
Northern Investment	1,394
Goldman, Sachs Asset Mgmt.	1,213
MacKay-Shields Financial	920
Prudential Fixed Income Advisors	856
Bank One, Indianapolis	707
STW Fixed Income Mgmt.	520
Barrow, Hanley, Mewhinney & Strauss	490
BEA Associates	466
ASB Capital	451

Top managers $250 million to $1 billion

Firm	$ millions
Consistent Asset Mgmt.	430
Ryan Labs	412
Remsort Investment	155
NCM Capital	79
Dominion Trust	69
Todd Investment Advisors	66
Baring America	61
Cornerstone Asset Mgmt.	49
Bessemer Trust	46
First Nat'l Bank-Omaha	25

Top managers under $250 million

Firm	$ millions
Seaboard Investment	35
Cisneros Asset Mgmt.	29
Benchmark Asset Mgmt.	21
VCS&O Asset Mgmt.	11
Nelson Capital	10
Philadelphia Investment	10
PRIMA	9
Cedar Hill Associates	7
Coughlin Asset Mgmt.	7
Greenwich Asset Mgmt.	7

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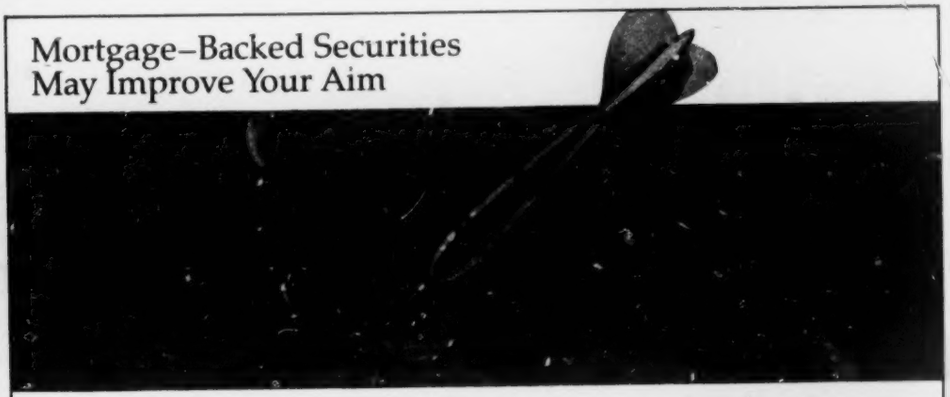

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GIC managers

Continued from page 17

tured, but that is starting to change."

"Plan sponsors typically buy contracts on pre-determined arbitrary dates and managers are in the market every day," said David Perry, president and chief investment officer at Certus Financial Corp., which gained $1 billion in new business from U.S. institutional tax-exempt funds.

Mr. Perry said he would not be surprised to see net new business to the top 10 managers triple in 1990.

"It's no longer a dormant asset class, and people realize there are professionals involved in the business," he said.

Mr. Walker said there will be a "window of opportunity" for existing managers to grow "at a tremendous rate" in the next two to three years before the entry of new players increases competition and slows the growth by the top tier of GIC managers.

Despite the growth of GIC assets under external discretionary management, it still is a very small percentage of the overall guaranteed investment market.

The total market is estimated at upwards of $200 billion, with the annual volume from rollovers and new investments at between $30 billion and $50 billion. Professional money managers control less than 10% of the total, according to most industry sources.

Jason Psomc, senior vice president at Brentwood Asset Advisors, a Beverly Hills, Calif., GIC consulting firm, acknowledges the trend toward GIC management, but pointed out most plan sponsors continue to prefer to manage GICs internally with the help of a consultant.

"GIC consultants have the same resources, the same technology and knowledge available to the managers but without the fees associated with GIC managers, usually 20 to 50 basis points on total assets or invested assets," Mr. Psome said. "Either way, managers charge significantly higher fees than consultants to achieve the same results. We feel GIC management is an oxymoron. GICs have a fixed rate, a fixed maturity and are not marked to market. How do you manage them?"

But to the management firms, the internally managed GIC portfolio are the prime prospect for external management.

Vernon Hodge, president and chief investment officer at PRIMCO Capital, said the growth is coming from internally managed defined contribution plans by plan sponsors "who now believe they can achieve better results through outside management."

PRIMCO added $2.05 billion in new business in 1989.

Another source of growth, said Mr. Hodge, is coming from the increased use of GIC funds in participant-directed plans "because of concerns about volatility in the equity market."

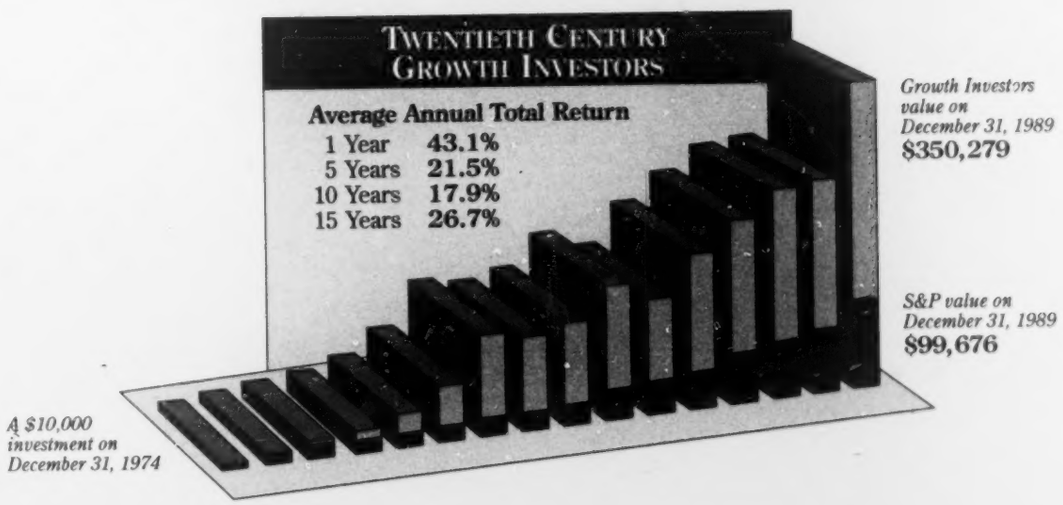
"It's the same old story," said Alvey Smith, assistant vice president and investment officer at Bank One, Indianapolis, which gained $141 million in new business. "People can understand them and they provide liquidity; you put a dollar in and you get a dollar out. A lot of GIC portfolios have been done in-house by an assistant treasurer or benefits manager, who is grappling with maybe two or three contracts and, over the years, finds he has $60 million or $80 million. (He) starts looking for help as rates become more volatile and credit analysis of carriers becomes more important. (He) finds it is just easier to turn it over to someone," said Mr. Smith. ■

Pensions & Investments welcomes letters to the editor.

Letters should include name, address and, if appropriate, the company of the writer.

The editors reserve the right to edit any letter for reasons of space or clarity.

Got any plans
for the next 15 years?



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PIA

No-Load Mutual Funds

Overseas style

Continued from page 17

that makes many international investors nervous. "The value approach was not favored in the Japanese markets in 1988," he said. "But we did not change our stripes and were rewarded in 1989."

Baring pocketed the second biggest net assets in 1989 among the second tier of managers, adding $530 million. Jack McNamara, manager of Baring International (U.S.), Boston, said the growth came from two areas: active country/currency allocation and then passive investment within the selected country and, secondly, country-specific or regionally based placements. The firm also received more cash flow from existing clients, he said.

"As plan sponsors become more comfortable with international investing, they like to supplement their EAFE index with targeting of a particular area," he said. In essence, he said, the active country/passive stock strategy is a tilt fund, "tilting away or toward a particular market, like Japan."

Oechsle International Advisors, Boston, was No. 3 in the category of managers with between $1 billion and $10 billion in total assets.

The firm added a net $474 million in international business in 1989.

"We really have only one approach — aggressive country allocation," said Stephen Langer, an Oechsle partner.

He added a main strength is the firm's in-house research.

"That's real important in international because we still contend there is gross pricing inefficiencies in foreign markets," he said.

Research in foreign markets is still in its developmental stage, he said. "It's tough in the U.S. markets to do better than tie (the market performance). Overseas markets are a much more uncharted opportunity."

Hill Samuel In estment Advisers placed No. 1 in net international asset growth among firms with $250 million to $1 billion in total tax-exempt assets under management. The firm added $469 million in 1989.

"We offer the pension sponsor a style of value that is a great complement to a passive portfolio," said I.P. "Kip" Knelman, executive vice president and director for Hill Samuel.

Mr. Knelman said the firm also picked up some regionally mandated and international fixed-income business. He expects that as the 1990s develop, more sponsors will look away from internationally indexed investments, even though the investments outperformed most active managers in the 1980s.

"People forget that in this industry most things go in cycles," Mr. Knelman said. He added it was a "natural evolution to expect more stylized international portfolios in the coming decade.

"Look at the U.S.," he said. "Back in the early 1970s, there was virtually no emphasis on (investment) style."

Boston International Advisors Inc., Boston, finished second to Hill Samuel in that manager grouping, with $454 million in new business in 1989.

Lyle Davis, president, said the quantitative firm uses a two-step process.

First, it values each of the 18 Morgan Stanley Capital International Europe Australia Far East Index markets individually and then it constructs a portfolio using the most attractive stocks from about eight of the most attractive markets.

He said the style has and is expected to draw interest from pension funds that are wanting to do more explicit management of international assets.

Wardley Investment Services International Ltd., New York, had the most new net business in 1989 among the smallest firms in the Scorecard groupings, those with less than $250 million in total U.S. tax-exempt assets under management.

Wardley netted $100 million in new international business in 1989.

Deborah George, Wardley executive vice president, said the firm's biggest chunk of business was in a regional South East Asian Equity Fund (excluding Japan) and an active diversified international equity portfolio.

"People have just had it with Japan," she said, "and our investors recognize that being an active manager (in Southeast Asia) makes a lot of sense because these markets are inefficient and are growing with new issues in smaller marketplaces."

Even though the active managers are making inroads, and they could outperform indexers in the 1990s, Wells Fargo's Ms. Dunn expects international indexing to remain a growing field.

"International indexed funds are not marketed on the basis of performance as a rationale," she said. "There will be a role for international indexing regardless of future performance." ■

Core portfolio pitch keeps assets rolling

By Terry Williams

Institutional investors believed real estate managers' claims that suitable core portfolio properties are still available, even in a down market.

The proof? Five of the top 10 real estate managers in *Pensions & Investments*' annual Scorecard Survey have bought, plan to buy or historically are buyers of core portfolio properties.

Scorecard tracks the net gains — excluding capital appreciation — of managers' U.S. institutional tax-exempt assets for the year.

The managers' confidence in the availability of suitable core properties, however, is tempered by the realization it won't be easy.

David Hodes, a director with The Yarmouth Group in New York, said there are opportunities to buy, and the firm could satisfy its clients' demand for good property in three to five years.

"It's not getting any easier and property isn't getting any cheaper," he said. But Yarmouth's clients will be patient, according to Mr. Hodes. A pension fund that makes a separate account commitment of $200 million doesn't say the clock is ticking, he said.

"I am not a proponent of the belief that you buy simply to put money to work," Mr. Hodes said. "We tell people, 'If you are looking to put money to work in six months, don't hire us.' "

All but $200 million of the $1.135 billion The Yarmouth Group raised in 1989 is from separate account arrangements, according to Mr. Hodes. The company will buy offices, regional malls and industrial buildings in central business districts.

Equitable Real Estate Investment Management Inc., New York, raised a net of $1.194

See **Portfolio** *on page 20*

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Portfolio

Continued from page 19

billion, the most in the survey and No. 1 for the second straight year.

All of the money has been invested, said George Puskar, chairman.

Among the properties bought by Equitable for its clients were two large office buildings in Hawaii and the Trillium, a Los Angeles office building that was bought for the California Public Employees Retirement System.

Equitable's open-end commingled Prime Property Fund paid $200 million for regional malls. The company also bought $260 million worth of industrial-warehouse property, according to Mr. Puskar.

"It's difficult to invest in industrial-warehouse properties unless you have a field operation that can handle a lot of small deals," Mr. Puskar said. "We think we have access that is unparalleled."

David Glickman, president of Heitman Advisory Corp., Chicago, said the $700 million his firm netted also has been invested.

The money was invested in regional malls, industrial parks and selected office buildings, all of which were substantially leased, Mr. Glickman said. A small amount of pre-development land also was bought.

About 25% of the new assets came through Heitman's Group Trust, a closed-end fund, Mr. Glickman said. The rest was from separate account arrangements.

John Emmanuel, senior vice president with Schroder Real Estate Associates, New York, said the firm would have no problem investing its clients' money within 12 months because it is not looking for the trophy property segment of the market.

The firm looks to add value to the properties it acquires.

Schroder raised $200 million in 1989 through two funds.

According to Mr. Emmanuel, its closed-end fund will acquire three to five underutilized shopping centers, office buildings or industrial warehouses in secondary and tertiary markets.

"We would have no problem investing within a 12-month period," Mr. Emmanuel said. "We are not looking at the trophy property segment of the market.

"We are looking at properties that would present difficulties to some people — properties that require property and construction management.

"There will be a good abundance of investment opportunities."

Carl Mayer Jr., a principal with Karsten Realty Advisors, Los Angeles, said most of the $253 million the firm took in during 1989 was a result of pension funds turning over existing real estate portfolios to it.

That's because consultants and pension executives are taking a harder look at returns, Mr. Mayer said. He noted Karsten, which has a reputation as a workout specialist, is a finalist in six new manager searches.

"They are going to make changes if things aren't corrected," he said. ■

SCORECARD

Most new indexed fund business (net)

($ millions)

Firm	Total	Equity	Fixed income
Bankers Trust	3,548	3,132	416
State Street Bank & Trust	2,514	2,195	319
Wells Fargo Investment	1,313	1,476	—
BEA Associates	1,018	1,018	0
Boston Co.	832	246	586
Lincoln Capital	419	0	419
Atlantic Portfolio Analytics	417	0	417
Ryan Labs	412	0	412
Fidelity Mgmt. Trust	369	190	179
Pacific Investment	345	345	0

Survey

Continued from page 1

ment Co., Newport Beach, Calif., and Lincoln Capital Management, Chicago, which are largely in fixed income, and Delaware Investment Advisers, Philadelphia, primarily in active, value-oriented equity management.

Among firms with $1 billion to $10 billion under management, the two top gainers were guaranteed investment contract managers PRIMCO Capital Management Inc., Louisville, Ky., and Morley Capital Management Inc., Lake Oswego, Ore.

"It's obvious PRIMCO and Morley are picking up on the move outside on GICs," Mr. Eager said.

GIC portfolio management also was a major factor in the growth of three of the top 10 managers in the more than $10 billion category — Fidelity Institutional, Bankers Trust and State Street Bank.

Fidelity Institutional, set up this past year to serve defined contribution plans, had slightly more than $3 billion in GIC business, representing more than half of its net gain of $5.6 billion. Bankers Trust had $997 million in GIC management and State Street Bank, $859 million.

As GIC portfolios have grown, more pension executives have decided to hire money managers to select contracts, said Jim Bowhers, senior vice president of Fidelity Institutional.

The rest of the top-gaining managers in the $1 billion to $10 billion group were a mixed bag, including Goldman, Sachs Asset Management, New York, primarily a quantitative fixed-income manager; BEA Associates Inc., New York, which drew most of its gain from indexed equity management; The Yarmouth Group, New York, a real estate specialist, and Eagle Asset Management, St. Petersburg, Fla., and GAMCO Investors Inc., New York, both active equity managers.

Eagle and GAMCO are hot primarily because they've had excellent performance, as did another in this group, fixed-income specialist Western Asset Management Co., Pasadena, Calif., Mr. Jones said.

International/global specialists led firms in the $250 million to $1 billion category, with Hill Samuel Investment Advisers Ltd., Minneapolis, and Boston International Advisors Inc. finishing first and second respectively.

Both firms have promoted themselves successfully and have had good performance as well, Mr. Jones noted. Hill Samuel is somewhat quantitative, while Boston International is highly quantitative, he said.

Some others in this size category — Consistent Asset Management Co. and Brandywine Asset Management, both of Wilmington, Del., and Morgan Stanley Asset Management The Chicago Group, Chicago, — appear to have gained popularity primarily on the strength of performance, Mr. Jones said.

Leading the category of firms with less than $250 million under management was Spare, Tengler,

See **Survey** on page 22

SCORECARD

Most new international/global business (net)
(total of equity and fixed-income)

Top managers over $10 billion

Firmm	$ millions
Wells Fargo Investment	2,420
State Street Bank & Trust	1,852
Capital Guardian Trust	850
Fidelity Mgmt. Trust	827
Brinson Partners	727
Bankers Trust	726
Prudential Asset Mgmt.	345
Boston Co.	229
GE Investments	125
INVESCO Capital	99

Top managers $1 billion to $10 billion

Firm	$ millions
Nomura Capital	612
Baring International	530
Oechsle International	474
Schroder Capital	446
Warburg Investment	343
Rowe Price-Fleming	307
County NatWest Investment	247
Morgan Grenfell Investment	184
BEA Associates	183
TIMCO	127

Top managers $250 million to $1 billion

Firm	$ millions
Hill Samuel Investment Advisers	469
Boston International Advisors	454
HD International	272
Marsh & Cunningham-Castegren	212
SBC Portfolio Mgmt.	185
Nikko Capital	141
Parametric Portfolio Associates	117
Julius Baer	113
Dunedin Fund	113
First Nat'l Bank-Omaha	80

Top managers under $250 million

Firm	$ millions
Wardley Investment Services	100
InterQuant Capital Advisors	80
Emerging Markets	64
Kleinwort Benson International	24
Brandes Investment	23
Credit Suisse	15
Oak Hall Capital Advisors	12
Guild Investment	2

Most new balanced business (net)

Top managers over $10 billion

Firm	$ millions
Fischer, Francis, Trees & Watts	1,180
Fidelity Institutional	807
Manufacturers Nat'l Bank-Detroit	441
J.P. Morgan	397
INVESCO Capital	350
Oppenheimer Capital	300
Boatmen's Trust	296
Boston Co.	122
Brinson Partners	91
Capital Guardian Trust	76

Top managers $1 billion to $10 billion

Firm	$ millions
First Quadrant	950
McMorgan	345
Fiduciary Mgmt. Associates	240
Midlantic Nat'l Bank	168
Dodge & Cox	146
AMR Investment	100
Dillon, Read Capital	83
Munder Capital	76
Shearson Asset Mgmt.	76
Wolf, Webb, Burk & Campbell	64

Top managers $250 million to $1 billion

Firm	$ millions
JCW Investments	441
Federated Investment Counseling	185
Beacon Capital	162
Morgan Stanley-Chicago Group	122
Sirach/Flinn, Elvins Capital	118
Signet Asset Mgmt.	111
WEDGE Capital	99
Unity Mgmt.	65
American Asset Mgmt.	58
Ashfield & Co.	58

Top managers under $250 million

Firm	$ millions
Paine Webber Asset Mgmt.	60
Fox Asset Mgmt.	45
Seaboard Investment	43
Kanawha Capital	38
RXR Capital	34
Home Capital Services	21
Spare, Tengler, Kaplan & Bischel	20
Stuyvesant Capital	18
ICM Asset Mgmt.	16
Marathon Asset Mgmt.	16

Most new real estate business (net)

Top managers over $10 billion

Firm	$ millions
Equitable Real Estate	1,194
J.P. Morgan	421
Boston Co.	150
Metropolitan Life	132
GE Investments	80
State Street Bank & Trust	59
Brinson Partners	3
Manufacturers Nat'l Bank-Detroit	2
Boatmen's Trust	1

Top managers $1 billion to $10 billion

Firm	$ millions
Yarmouth Group	1,135
JMB Institutional Realty	796
Heitman Advisory	700
Lehndorff & Babson Real Estate	553
Copley Real Estate Advisors	445
PSI Institutional Realty Advisors	190
Latimer & Buck	135
McMorgan	130
O'Connor Group	125
Property Capital Associates	123

Top managers $250 million to $1 billion

Firm	$ millions
Dreyfus Realty Advisors	260
Karsten Realty Advisors	253
Schroder Real Estate	200
Piedmont Realty Advisors	120
MIG	116
Bennett & Kahnweiler Realty	54
PMRealty Advisors	52
McMahan Real Estate	46
JCW Investments	7

Top managers under $250 million

Firm	$ millions
Mid-Atlantic Realty Advisors	182
AMB Institutional Realty	136
Lincoln Asset Mgmt.	130
Metric Institutional Realty	86
EAI Resource Investments	59
Smith Barney Birtcher Realty	53
Liquidity Fund	15
Hayden, Tolzmann & Associates	12
Lieberman Cos.	6
Acquest Capital	4

Harvard, Merrill Lynch trade barbs in court

By Trudy Ring

BOSTON — Merrill Lynch Pierce Fenner & Smith Inc. has moved for dismissal of a suit brought against it by Harvard University.

Harvard, in turn, has filed a memorandum in opposition to the motion.

Harvard sued the Merrill Lynch & Co. unit for $135 million in damages, alleging misrepresentation in advice to invest in remarketed notes issued by Lomas Financial Corp., Dallas, and underwritten by Merrill Lynch Capital Markets (*Pensions & Investments*, Nov. 27).

Harvard Management Corp., which oversees the university's $3 billion endowment fund, in May bought $45 million of the notes, part of a $300 million private placement. In September, Lomas defaulted on the notes and filed for protection under Chapter 11 of the Federal Bankruptcy Code.

In a memorandum in support of the motion for dismissal, filed Dec. 26 in U.S. District Court in Boston, Merrill Lynch said it did not misstate or omit material facts about Lomas, as alleged in Harvard's suit.

"Virtually all of Harvard's allegations fail to state a claim under the federal securities laws because each purported 'fact' either (1) was not a fact, but an opinion, prediction or 'puffing'; (2) was disclosed; or (3) need not have been disclosed," the Merrill Lynch memorandum said.

"Courts consistently have held that statements of opinion, prediction or the 'puffery' of salespeople are not actionable under securities laws," the filing said.

"The alleged misstatements of Merrill Lynch and LFC (Lomas) to the effect that the remarketed notes were a sound investment and that LFC's prospects were bright are of the same sort held to be not material in these cases," the memorandum said. "That a sophisticated institutional investor such as Harvard would base its investment decision on alleged statements by Merrill Lynch that it 'felt very positive about Lomas' and that 'if the notes were not a good program Merrill Lynch would not be bringing it to market' is disingenuous at best."

Harvard, in its memorandum filed Jan. 16, contended Merrill Lynch made material misstatements of fact, not opinions, predictions or puffery.

"Merrill Lynch thus characterizes as mere opinion and prediction even misstatements that the remarketed notes were 'as liquid as commercial paper' and 'of investment grade,' that the auction mechanism assured resale of the notes on the rollover date, that 'each division of Lomas is well-capitalized,' and that 'operating cash flows are more than adequate to service its projected interest, dividend and other administrative requirements,'" the memorandum said.

Also, certain opinions and predictions are actionable by law, the Harvard filing said.

Merrill Lynch's filing contended facts it allegedly withheld about Lomas' finances were indeed disclosed or were available publicly in documents filed with the Securities and Exchange Commission. "Had Harvard bothered to read the information Merrill Lynch provided to it, or attempted to obtain the information LFC and Merrill Lynch invited it to review, it would have known the very information it now asserts was not disclosed," the filing said.

Harvard's filing responded that a general reference to the SEC filings does not absolve Merrill Lynch of liability for misstatements and omissions; the filings in question contain misrepresentations themselves. Also, Merrill Lynch imputes to Harvard an obligation to investigate Lomas by reviewing SEC filings — an obligation that does not exist under securities law, the memorandum said. ■

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Survey

Continued from page 20

Kaplan & Bischel Inc., San Francisco, which drew $205 million last year. The firm was formed last summer by a group of professionals from San Francisco-based Merus Capital Management, and the $205 million all came from former Merus clients, said Nancy Tengler, principal. A total of $185 million was for equity accounts and $20 million for balanced management; the firm's equity strategy focuses on dividend yield.

Since the beginning of 1990, the firm has drawn $20 million that did not come from a Merus relationship, Ms. Tengler said.

JCW Investments Inc., Brea, Calif., one of the top firms in the $250 million to $1 billion category, also was a start-up, founded by principals who left Trident Investment Management Inc., Anaheim, Calif. The bulk of JCW's 1989 asset flow was for balanced management.

Other firms in the less than $250 million size category that made the top 10 by attracting their first tax-exempt assets in 1989 were Mid-Atlantic Realty Advisors, Pittsburgh; AMB Institutional Realty Advisors, San Francisco; Lincoln Asset Management Co., Dallas, also a real estate firm, and Paradigm Partners Inc., Bellevue, Wash., an investor in hedge funds and other alternative vehicles.

In the $250 million to $1 billion category, firms in the top 10 that started the year with nothing were fixed-income indexing specialists Atlantic Portfolio Analytics & Management Inc., Orlando, Fla., and Ryan Labs Inc., New York. ■

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GIC rates fell in '89, but quality gap grew

By Fred Williams

Rates on guaranteed investment contracts declined during most of 1989 in tune with the overall decline in interest rates, but quality spreads over Treasury instruments with similar maturities widened to levels not seen for more than a year.

"The biggest thing about 1989 was the improvement in spreads. Spreads contracted almost all of 1988 and expanded almost all of 1989," said Ned Schmidt, president of Schmidt Management Co., Tulsa, Okla., a guaranteed investment product market research and consulting firm.

"The average spread went from a couple of basis points in January 1989 to about 40 basis points on average for all contracts in one- to 10-year maturities."

On a three-year contract, the average spread increased from 2 basis points in December 1988 to 33 basis points in December 1989, according to Mr. Schmidt. On a five-year contract, the spread increased from 19 basis points in to 53 basis points.

The widening spreads, which reached 75 to 80 basis points on three-year contracts and up to 100 basis points on five-year contracts in the final quarter of 1989, "are spreads we haven't seen in over a year," said John Knight, president of Lamberson Knight GIC Inc., Short Hills, N.J. "Spreads like that increase the interest and activity by buyers in the GIC market, and we saw that last year."

In addition, he said, the capacity problem experienced by insurance carriers in previous years was not as noticeable during 1989 "largely because of the availability of investments for insurance companies. The carriers also did a more adequate job of allocating contracts in a more orderly fashion during the year."

Insurance company rate quotations on representative five-year, single-deposit, simple interest, $1 million GICs as of Dec. 29, and Sept. 29, 1989 as provided by Lamberson Knight GIC Inc., Short Hills, N.J. and GIC Inc., Beaverton, Ore., are:

- Allstate Life Insurance Cos., Northbrook, Ill.: Dec. 29, 8.51%; Sept. 29, 9.01%.
- Canada Life Assurance Co., Toronto: 8.34%; 8.75%.
- Confederation Life Insurance Co., Atlanta: 8.75%; 8.95%.
- Connecticut Mutual Life Insurance Co., Hartford: 8.22%; 8.95%.
- Continental Assurance Co., Chicago: 8.34%; 8.79%.
- Crown Life Insurance Co., Toronto: 8.46%; 8.6%.
- Hartford Life Insurance Co., Hartford, Conn.: 8.58%; 8.72%.
- Home Life Insurance Co., New York: 8.13%; 8.53%.
- John Hancock Mutual Life Insurance Co., Boston: 8.53%; 8.84%.
- Life Insurance Co. of Virginia, Richmond: 8.39%; 8.82%.
- Lincoln National Pension Insurance Co., Fort Wayne, Ind.: 8.6%; 8.91%.
- Minnesota Mutual Life Insurance Co., St. Paul: 8.26%; 8.84%.
- Mutual Benefit Life Insurance Co., Newark, N.J.: 8.55%; 8.38%.
- Mutual of New York, New York: 8.49%; 8.64%.
- New York Life Insurance Co., New York: 8.5%; 8.75%.
- Ohio National Life Insurance Co., Cincinnati: 8.61%; 8.97%.
- Pacific Mutual Life Insurance Co., Newport Beach, Calif.: 8.01%; 8.31%.
- Pan American Life Insurance Co., New Orleans: 8.59%; 8.98%.
- Penn Mutual Life Insurance Co., Philadelphia: 8.58%; 8.89%.
- Phoenix Mutual Life Insurance Co., Hartford: 8.31%; 8.69%.
- Provident Mutual Life Insurance Co., Philadelphia: 8.01%; 8.67%.
- Provident National Life Assurance Co., Chattanooga, Tenn.: 8.5%; 8.01%.
- Southwestern Life Insurance Co., Dallas: 8.57%; 8.8%.
- State Mutual of America, Worchester, Mass.: 8.44%; 8.85%.
- United of Omaha Insurance Co., Omaha, Neb.: 8%; 8.63%.

William M. Mercer Meidinger Hansen Asset Planning Inc., Northbrook, Ill., surveys insurance companies for rate quotations and provided the following summary of various bullet GICs for December 1989:

- Three-year, $1 million, compound: high, 8.67%; low, 7.57%; average, 8.14%.
- Three-year, $1 million, simple: high, 8.67%; low, 7.52%; average, 8.12%.
- Five-year, $1 million, compound: high, 8.85%; low, 7.78%; average, 8.36%.
- Five-year, $1 million, simple: high, 8.75%; low, 7.75%; average, 8.33%.
- Seven-year, $1 million, compound: high, 8.87%; low, 7.85%; average, 8.44%.

See **Rates** on page 26

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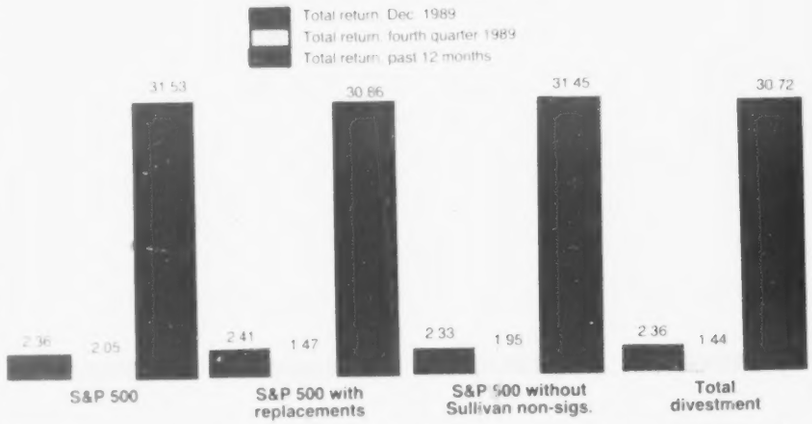
Morgan Stanley Capital International worldwide indexes

Source: Morgan Stanley Capital International, New York
Indexes are in U.S. dollar terms without dividends reinvested.

South Africa Free Index



S&P 500 with replacements: replaces a South Africa-related company with next largest company in the industry. **S&P 500 without Sullivan non-signatories:** excludes 6 companies, no replacements. **Total divestment:** eliminates all companies with South Africa involvement, no replacements.

Source: Wilshire Associates, Santa Monica, Calif.

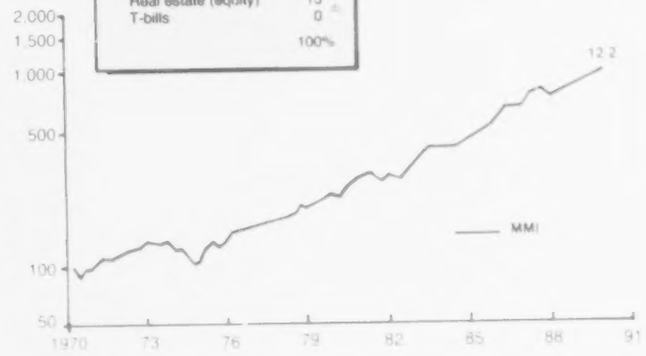
Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.

Weights

Large cap stocks	28%
Small cap stocks	12
International stocks	15
Venture capital	5
Domestic bonds	18
International $ bonds	2
Non-dollar bonds	5
Real estate (equity)	15
T-bills	0
	100%

Five-year annualized return: 12.6%
One-year return: 17.4%
Latest quarter: 2.1%

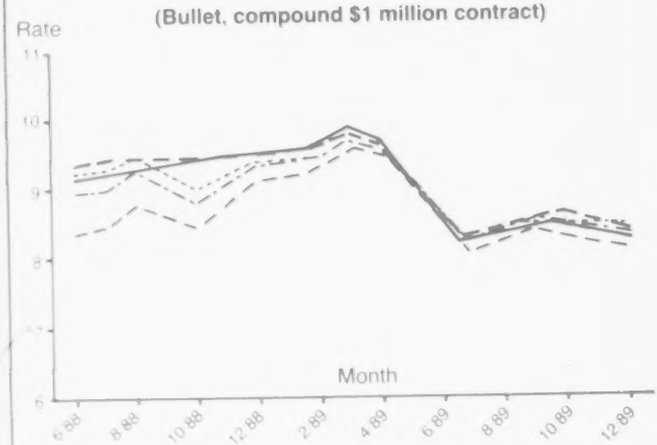


12/31/69 = 100
Data through 12/31/89

Source: Brinson Partners Inc., Chicago

Summary of average GIC & BIC data vs. market yields

(Bullet, compound $1 million contract)



3-year GIC
5-year GIC
7-year GIC
91-day T-bill
6-year Treasury
3-year BIC
5-year BIC
7-year BIC

Source: Mercer-Meidinger-Hansen Asset Planning Inc., Chicago

Fourth quarter 1989 returns

	Russell 3000 ®	Russell 1000 ®	Russell 1000 ® by market capitalization				Russell 2000 ®
			Large	Medium large	Medium	Medium/small	
Technology	1.3%	0.9%	0.0%	3.5%	1.0%	2.0%	4.5%
Health care	6.2	6.9	7.2	9.8	7.0	1.6	0.5
Consumer discretionary	4.1	3.7	0.0	4.3	2.9	7.2	8.1
Consumer staples	4.3	4.5	5.4	3.8	4.3	1.3	3.0
Integrated oils	11.7	11.8	13.2	3.7	4.1	2.2	15.9
Other energy	9.0	8.7	NA	6.4	10.3	11.6	11.5
Materials and processing	0.8	0.1	7.0	3.6	0.0	2.5	6.0
Producer durables	1.6	0.9	6.9	0.5	8.1	6.5	8.3
Auto and transportation	9.7	9.8	10.2	7.6	11.5	10.1	8.6
Financial services	7.5	7.4	3.7	8.7	6.8	8.7	9.7
Utilities	8.5	8.7	9.6	8.7	7.2	6.7	2.3
Total	0.7	1.2	5.1	0.6	1.0	3.3	4.9

Source: Frank Russell Co., Tacoma, Wash.

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New market a challenge

Study alerts U.S. firms to dynamics of Europe 1992

By Leonard J. Hollie

PHILADELPHIA — Europe 1992 will create the largest single market in the world, and U.S. multinational companies must learn how to take advantage of the freer movement of goods, services, capital and people in a more competitive atmosphere, warns a study from the Wharton School of the University of Pennsylvania.

"Proper timing is the key," concludes Peter Lorange, a professor of multinational management at Wharton. He co-authored the study, "1992 — A Single European Market: Management Challenges for Multinational Companies," with two European professors: Gottfried Becker, assistant professor at the University of Siegen, West Germany; and Vittorio Lusvarghi, assistant professor at the University of Modena, Italy.

The study advises multinational companies to take an active role in the evolution of the European Common Market to ensure the laws that eventually govern Europe will be compatible with their business strategies in other parts of the world.

The report also recommends other strategies to help U.S. companies adapt to the changes brought on by a unified European economy.

The authors stress accurate information is the key.

They say U.S. multinational corporations should make use of their presence already established in Europe and appoint European experts to strengthen information gathering capabilities for monitoring single-market developments.

The report also recommends striking a balance between understanding the challenges of the broader European economy and those of the individual local markets.

"The European Community will never represent one set of consumer tastes," according to the report. "While it offers opportunities for unification within this diversity of product market preferences, it will require an active presence to gain sufficient understanding to receive benefits from both a broadened European Community strategy and from the necessary adaptation to local circumstances."

The unification of the markets may lead to a realignment of production and could reduce the cost of manufacturing as well as the costs of patents, development, storage, transportation and distribution.

"The single market will offer to small- and medium-size firms, both European and non-European, easier access to the entire European market," the authors said. "They will win by standardization of and fewer barriers to the national markets."

U.S. companies also should adopt an active stakeholder approach to lobby for input in the Common Market's evolution, not only in Brussels but also in those countries where the companies' headquarters and subsidiaries are located.

The authors said one misconception about 1992 is that it will be achieved by the end of 1992. In reality, it could take a full generation to implement such dramatic changes effectively.

"1992 is not a D-Day, but a milestone in an ongoing process, as Europe evolves into one integrated, inner market," the report concluded. ■

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Rates

Continued from page 24

- Seven-year, $1 million, simple: high, 8.81%; low, 7.94%; average, 8.41%.
- Three-year, $5 million, compound: high, 8.67%; low, 7.75%; average, 8.2%.
- Three-year, $5 million, simple: high, 8.67%; low, 7.64%; average, 8.17%.
- Five-year, $5 million, compound: high, 8.85%; low, 7.85%; average, 8.4%.
- Five-year, $5 million, simple: high, 8.84%; low, 7.7%; average, 8.37%.
- Seven-year, $5 million, compound: high, 8.92%; low, 7.9%; average, 8.49%.
- Seven-year, $5 million, simple: high, 8.87%; low, 7.75%; average, 8.44%.

Schmidt Management has developed a guaranteed product index for performance measurement purposes. The Schmidt GIC composite index approximates the return of a continuous, equally weighted investment in one- to 10-year original-maturity GICs. (The index shows returns, not rates.)

Total returns for the quarter and 12 months ended Dec. 29 were 2.37% and 10.22% respectively. In comparison, the Standard & Poor's 500 Stock Index returned 2.06% and 31.55%; the Merrill Lynch Government/Corporate (Bond) Master Index returned 3.49% and 14.11%; and 90-day T-bills, 2.1% and 8.89%.

Mercer Meidinger Hansen also surveys banks for rate quotations on their guaranteed instruments. Rate quotes for one- and three-year bullet BICs for December were:

- One-year, $1 million, compound: high, 8.14%; low, 7.57%; average, 7.88%.
- One-year, $1 million, simple: high, 8.14%; low, 7.61%; average, 7.94%.
- One-year, $5 million, compound: high, 8.14%; low, 7.52%; average, 7.89%.
- One-year, $5 million, simple: high, 8.2%; low, 7.81%; average, 8%.
- Three-year, $1 million, compound: high, 8.45%; low, 7.89%; average, 8.19%.
- Three-year, $1 million, simple: high, 8.45%; low, 8.08%; average, 8.24%.
- Three-year, $5 million, compound: high, 8.5%; low, 8%; average, 8.19%.
- Three-year, $5 million, simple: high, 8.5%; low, 8.08%; average, 8.26%. ■

Defense

Continued from page 1

Corp. which have a technological edge in surveillance and airborne verification. Investors view these companies as possible opportunities because changes in Eastern Europe likely will require defense equipment for monitoring rather than outright conflict.

E-Systems and Loral are two stocks included in the growth stock portfolio of the $22 billion Teacher Retirement System of Texas, Austin, said Harold Meyers, an equity research analyst with the system.

Many institutions are buying stock in defense companies with diversified operations — such as **Martin Marietta Corp.** — and ones with commercial as well as military ties — including **United Technologies Corp.** and **Boeing Co.**

Those companies are better positioned to ride out market pessimism, capped by the crumbling Berlin Wall and defense cutbacks, analysts say, while traditional "metal benders" — **Grumman Corp.** and Lockheed among them — are less diversified and poorly positioned to overcome cash flow constraints.

Contractors have suffered because they spent more money to develop programs than the government's fixed-price development contracts provided, and because government progress payments have not kept pace with the costs companies have incurred.

Rather than outright retreat, however, some institutional investors are taking advantage of the relatively low market values of aerospace and defense companies in general to glean specific stocks.

"Our defense exposure since September has been increasing because we do see a contrarian story here," said Mr. Ubben at Fidelity.

Fidelity's largest exposure is in United Technologies, a good example of a company that has been hurt by industry pessimism but is poised for commercial growth, Mr. Ubben said.

"United Technologies is one of the more attractive stocks in the specialized aerospace defense industry because it has been affected by the negative psychology affecting the defense stocks," Mr. Ubben said. Fidelity held about 3 million shares of United Technologies as of Sept. 30, according CDA Investment Technologies Inc., Rockville, Md.

While real government defense spending is likely to decline 3% to 5%, Mr. Ubben said, United Technologies unites a host of factors that make it a desirable investment — low stock price, strong commercial capabilities and projected earnings growth due to a scaled-back military component.

"You've got growing earnings, a lot of which is due to military business which generates lower losses," Mr. Ubben said. Last week, United Technologies raised its quarterly dividend 12.5% to 45 cents per common share from 40 cents.

He said United Technologies is winding down its Norden Systems radar division, which lost about $140 million in 1989, while its Pratt & Whitney division, which manufactures aircraft engines and spare parts, is strong. Pratt & Whitney reported a backlog in excess of $11 billion in 1989 to be filled during the next three to five years.

Raytheon Co., with 40% of its sales coming from its commercial component, "will show improved margins and decent earnings growth," Mr. Ubben predicted.

Boeing's consolidation of its military operations, coupled with its $85 billion backlog, has made it a favorite of many institutional investors.

Last week, Boeing reported earnings of $97.3 million despite an operating loss of $474 million for the military and space operations.

"They had a major military loss and yet the commercial margins expanded sequentially on strike-depressed revenues," said William L. Kitchel, investment officer and analyst at Massachusetts Financial Services, Boston, which has been investing in the commercial aerospace sector for two years.

"We've made big bets" in Boeing and United Technologies, Mr. Kitchel said. "I don't think (Wall Street) appreciates the potential surge in profits."

Yes airline cancellations are a nagging worry, but in terms of the backlog, this is the first time we've had a replacement cycle," he explained. Orders for commercial aircraft are up because airplanes that were designed to have a life of 25 to 30 years now need to be replaced.

Last week, Boeing reported orders of 961 commercial transport aircraft valued at $47.3 billion, a dollar record for the fifth straight year.

Peter L. Ascertis, director and aerospace/defense electronics analyst with First Boston Corp., New York, said Boeing is a good example of a defense company that is well positioned to ride out current market pessimism.

"The defense industry generally doesn't look solid, but we also think that there are certain individual companies that could do OK," Mr. Ascertis said.

He forecasts continued growth in Boeing's commercial business, which most likely will benefit if travel demands grow in Eastern Europe and spark new orders from Eastern European air carriers that want more modern transport than is available from Soviet manufacturers.

Although the strong outlook for peace and defense budget cuts make investing in defense companies generally undesirable, Mr. Ascertis has singled out Martin Marietta as a good investment because its market valuation is well below comparable companies. In addition, its backlog grew to $13.4 billion in 1989, up 20% in a year.

Texas Teachers' Mr. Meyers said his fund is maintaining its 2% weighting in five defense and aerospace stocks — **Rockwell International Corp.**, **TRW Inc.**, Boeing, Martin Marietta and Raytheon — that are well diversified and have strong management.

The $20.033 billion State of Wisconsin Investment Board, Madison, has decreased its exposure in defense but increased its holdings in commercial aerospace companies, which are relatively cheap these days, said John Nelson, investment director-special equities. The outlook for defense "is not very good," Mr. Nelson said, but "commercial aerospace looks extremely strong, and unfortunately there are a lot of companies that split the business." ■

EPS rising among defense companies

(EPS estimates as of Dec. 29)

	Fiscal '89	Fiscal '90
Boeing	3.00	5.65
E-Systems	2.70	3.10
General Dynamics	7.10	7.30
Geodynamics	1.17a	1.30
GM Hughes Elec	1.90	2.20
Hexcel	1.25	1.70
Lockheed	0.25	5.50
Logicon	2.45v	2.65v
Loral	3.13v	3.90v
Martin Marietta	5.95	6.45
McDonnell Douglas	1.00	5.00
Raytheon	8.10	9.00
Rockwell Int'l	2.47a	2.45
Tech-Sym	1.00	1.25
Watkins-Johnson	2.12	2.60

A-Actual
V-Data refers to fiscal year ending one year later than column heading.
Source: The First Boston Corp., New York

Labor

Continued from page 1

ment staff does not have the "background, training or mentality" to conduct criminal investigations.

Also, Mr. Maria told a House subcommittee he plans to review the department's enforcement record in dealing with proxy voting issues and would, very probably, "end up examining investment managers' voting records."

Mr. Maria later added his office would examine a proxy-voting survey conducted by the department last year, which revealed more than one-third of money managers failed to vote their proxies. Mr. Maria said he is particularly concerned about potential conflicts of interest that money managers face dealing with corporate executives and their clients.

The Labor Department also is developing a legislative package to boost ERISA enforcement that threatens to add to employer costs.

In particular, the department is considering increasing the ability of private plan participants to sue employers and others over misuse of pension assets, and payment of bounties to informants. Sources said awards of treble damages and attorney's fees to plaintiffs are being discussed.

In addition, the department is reviewing proposals, urged by Mr. Maria, to toughen auditing standards, such as requiring peer review of auditors and forcing accountants to test plans for compliance with ERISA.

One change likely to occur would be elimination of "limited-scope audits," which exempt plan assets managed by banks and insurance companies from being audited for ERISA violations.

Sens. Nancy Kassebaum, R-Kan., and Orrin Hatch, R-Utah, recently introduced legislation prohibiting limited-scope audits.

The department faces a March 15 deadline on submitting its recommendations to a House Government Operations subcommittee.

Before the House Labor-Management Relations Subcommittee Jan. 31, Mr. Maria argued the department's recent efforts, while praiseworthy, were not enough.

In particular, he claimed the department's enforcement staff is not trained to detect professional racketeers and that computerized targeting of the annual Form 5500 data would not ferret out "willful, malicious acts."

Mr. Maria pointed to abuses in multiple employer welfare arrangements, or MEWAs, which are medical insurance plans marketed to small employers, often at below-market rates. In cases of abuse, these plans charge heavy up-front management fees and later fail to have adequate resources to pay out claims.

State regulators have run into problems pursuing these operators, Mr. Maria said, because they say ERISA pre-empts local law. While this legal defense is wrong, the Labor Department has failed at providing assistance to local officials, he said.

Mr. Ball acknowledged MEWAs are "particularly susceptible to abuse," but said their regulation belongs in the realm of the states. Nevertheless, the Labor Department is working at aiding state officials on MEWA issues and is considering requiring the trusts to file reports or registration statements with the department, he said.

The administration's proposal to permit transfers of surplus pension assets to 401(h) retiree medical accounts is expected to raise $800 million in revenue in three years, as employers using the transfer do not take deductions for retiree-health payments, although in the long run they will have to boost their pension contributions to make up for the amounts transferred.

Last year, the Treasury Department expressed reservations about transfer proposals, worrying about the long-term revenue costs and the equity of allowing pre-funding of retiree health benefits for a small group of employers.

But the administration appears willing to try a transfer on a trial basis. A Treasury Department paper explained the proposal would enable officials "to evaluate the effectiveness and the long-term revenue effects of this approach to satisfy retiree health care liabilities."

The administration's plan was most like one proposed by the House Ways and Means Committee last year, but does not include a controversial rule requiring employers to purchase annuities for all accrued pension liabilities in order to effect a transfer. All accrued pension benefits, however, would have to be vested.

The latest proposal would permit employers to transfer pension assets exceeding 140% of current pension liabilities to cover retiree medical expenses. It was not clear if the amount of transferred assets would be limited to one year's medical expenses. Transfers would be allowed only in 1991 and 1992.

The narrowness of the proposal will limit employer interest. "There will be some employers who do it, but it's not very attractive" to many, said John Woyke, a principal with TPF&C, New York.

The provision has a long row to hoe. Pension experts anticipate Sen. Howard Metzenbaum, D-Ohio, again will try to link any retiree-health transfer legislation to his bill restricting the ability of employers to recoup surplus assets from terminated pension plans. The senator's efforts caused a retiree-health transfer provision to be dropped from last year's budget bill. ■

Market

Continued from page 2

the stock market decline a plus. Robert McLaughlin, investment officer for the $19 billion Ohio Public Employees' Retirement System, Columbus, said his fund would be better off if the real estate, equity and bond markets all declined. "We have a positive cash flow and we would rather buy assets at a more favorable price, and get dividends at a better yield," he said. The pension fund has $8 billion in equity investments, with $4 billion in stock and $4 billion in cash.

"The recent stock market decline has all the earmarks of the beginning of a bear market," he said. "Last year we were a net seller of $300 million in stocks. If stock prices are low this year, then we will buy. I think the stock market is beautiful right now."

Managers have neither raised cash nor found major bargains in this market. "We're basically positive," said Jack Sullivan, partner of Harris Bretall Sullivan & Smith Inc., San Francisco. Equity market valuations are under pressure, with interest rates going up and earnings expectations down, but the situation likely will reverse later this year, he said. The firm is fully invested in its equity accounts and the equity portions of its balanced accounts.

"We haven't heard from our institutional investors with any general concerns," said Peter Thompson, president and chief investment officer of David L. Babson & Co. Inc., Cambridge, Mass. "We tend to be fully invested all the time as a matter of policy, so they wouldn't be talking to us about moving out of the market."

The decline is a normal pullback and not unreasonable, he said. "The market is cyclical and we feel that this is one of the down cycles."

Brinson Partners Inc., Chicago, has had about 25% cash in its equity accounts since October, but it hasn't bought into the current market weakness, according to Jeffrey Diermeier, managing partner-U.S. equities. "It's our sense that the market is somewhere in the area of 10% to 15% overpriced," he said.

Mutual fund shareholders appear to have taken more money out of equities in January than they have put in, Steven Roe & Farnham Inc., Chicago, said, net redemptions in equity mutual funds in January, a switch from net subscriptions to equities in December, said Marshall Front, executive vice president.

"It may well turn out that individuals again bought at the peak and sold after the horse was out of the barn," he said.

He added that although he couldn't yet quantify the January redemptions, they were modest by historical standards, as were the net subscriptions in December.

In addition to individual investors, Michael Metz, chief market analyst at Oppenheimer & Co. Inc., New York, said there has been some selling by foreign investors as the dollar has weakened. Also, players in takeover arbitrage and stock index arbitrage have been sellers.

Overall, however, volume has been low; there just aren't many people looking to buy stocks, Mr. Metz said. "The buyers have just walked away."

Harris Bretall's Mr. Sullivan also said foreign investors have been pulling out of U.S. equities, as their home markets have become more attractive.

Steven Einhorn, portfolio strategist at Goldman, Sachs & Co., New York, said while current sellers comprise a broad cross-section of investors, they're not being hasty. It "doesn't look like this is climactic selling," he said. "There isn't any panic. People aren't throwing stocks out the window." ■

NOTE

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Cov. 1, Pgs: 2, 4, 16-18, 20, 23, 26, 30-34, 37, 45